

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION
DOCKET NOS. 2017-207-E, 2017-305-E, AND 2017-370-E

IN RE:)
)
 Friends of the Earth and Sierra Club,)
 Complainants/Petitioners)
)
 v.)
)
 South Carolina Electric & Gas Company,)
 Defendant/Respondent)

IN RE:)
 Request of the Office of Regulatory Staff)
 for Rate Relief to South Carolina Electric)
 & Gas Company's Rates Pursuant to S.C.)
 Code Ann. §58-27-920)

IN RE:)
)
 Joint Application and Petition of South)
 Carolina Electric & Gas Company and)
 Dominion Energy, Inc. for review and)
 approval of a proposed business)
 combination between SCANA)
 Corporation and Dominion Energy, Inc.,)
 as may be required and for prudence)
 determination regarding the abandonment)
 of the V.C. Summer Units 2 & 3 Project)
 and associated merger benefits and cost)
 recovery plan.)

Surrebuttal Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of

South Carolina Energy Users Committee

October 29, 2018

**BEFORE
SOUTH CAROLINA PUBLIC SERVICE COMMISSION
REBUTTAL TESTIMONY OF KEVIN W. O'DONNELL, CFA**

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 A. My name is Kevin W. O'Donnell. I am President of Nova Energy
4 Consultants, Inc. My business address is 1350 Maynard Rd., Suite 101,
5 Cary, North Carolina 27511.

6
7 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN**
8 **THIS PROCEEDING?**

9 A. I am testifying on behalf of the South Carolina Energy Users Committee
10 (SCEUC), which is an industrial trade association in South Carolina. Many
11 of SCEUC's members take retail electric service from South Carolina
12 Electric & Gas (SCE&G or the Company) and will be impacted by the
13 proceedings in this case.

14
15 **Q. DID YOU PREVIOUSLY SUBMIT PRE-FILED DIRECT**
16 **TESTIMONY IN THIS CASE?**

17 A. Yes. On September 24, 2018, I submitted prefled direct testimony and
18 rebuttal testimony on October 24, 2018 in this proceeding.

19
20 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN**
21 **THIS PROCEEDING?**

22 A. The purpose of my testimony is to address the rebuttal testimony of SCEG
23 witness Ellen Lapson.

24

1 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF MS. LAPSON'S**
 2 **COMMENTARY OF YOUR PREFILED TESTIMONY.**

3 A. Ms. Lapson levels several criticisms of my testimony in this case that are
 4 misleading and show a lack of understanding by Ms. Lapson regarding
 5 utility regulation. Specifically, Ms. Lapson is inaccurate in the following
 6 matters:

- 7
- 8 1. Ms. Lapson is mistaken when she states that the sale of Public
 9 Service of North Carolina (PSNC) by SCANA or the total
 10 elimination of the SCANA dividend cannot help the credit issue of
 11 SCE&G; and
- 12 2. Ms. Lapson provides the Commission an unrealistic view of how
 13 utilities finance rate base investments.
- 14

15 **Q. CAN YOU PROVIDE ANY EVIDENCE TO SUPPORT YOUR**
 16 **POSITION THAT THE SALE OF PSNC OR THE TOTAL**
 17 **ELIMINATION OF THE SCANA DIVIDEND CAN PROVIDE**
 18 **SUPPORT TO THE CREDIT RATING OF SCE&G?**

19 A. Yes. That evidence can be found in the rebuttal testimony of Ms. Lapson.
 20 Specifically, Lapson Exhibit EL-2 is a copy of the July 23, 2018 publication
 21 of Moody's Credit Report of South Carolina Electric & Gas. The very first
 22 page of the report states as follows:

23

24 In the meantime, to conserve cash and preserve its options,
 25 SCE&G's parent, SCANA (Baa negative) announced at the
 26 end of June that it would cut its dividend by 80%. The
 27 reduction corresponds to the portion of the dividend
 28 attributable to the electric operations of SCE&G. We view
 29 the action as supportive of credit quality. ¹ (underline added)

¹ July 23, 2018 Moody's Credit Report of South Carolina Electric &
 Gas, Lapson Exhibit EL-2.

1 The above statement from Moody's, which was taken from Ms. Lapson's
 2 own testimony, is in direct contradiction to Ms. Lapson's rebuttal
 3 testimony, which states:

4
 5 **Q. HOW DO YOU RESPOND TO MR. O'DONNELL'S**
 6 **TESTIMONY REGARDING THE POSSIBLE SALE OF**
 7 **PSNC AS A MEANS TO MITIGATE THE NEGATIVE**
 8 **CREDIT CONSEQUENCES YOU MENTION IN YOUR**
 9 **TESTIMONY?**

10
 11 A. My response is similar to my response regarding cutting the
 12 dividend: SCANA's sale of PSNC, a sister subsidiary to SCE&G,
 13 would not improve the credit status of SCE&G and would not
 14 address the problem of inadequate ongoing cash flow relative to
 15 the operating utility debt. ² (underline added)
 16

17 Ms. Lapson apparently did not read her Moody's credit report before putting
 18 it in her rebuttal testimony.

19
 20 **Q. HOW DO YOU RESPOND TO MS. LAPSON'S STATEMENTS**
 21 **REGARDING THE "TAKING" ³ OF STOCKHOLDER FUNDS?**

22 A. The ratepayers of SCE&G and, indeed, the entire State of South Carolina
 23 have been subjected to reports of executive conduct of SCE&G that have:

- 24
 25 1. misled the public and the General Assembly in the state;
 26 2. resulted in the state and its citizens paying billions of dollars for an
 27 electric plant that will never produce a single kWh of electricity;
 28 3. caused much anguish for the State of South Carolina and its
 29 citizens; and
 30 4. created uncertainty impairing economic development.
 31

² Lapson rebuttal testimony, p. 31, l. 3-10

³ Id, p. 31, l. 20

1 SCANA's stockholders, through their elected board of directors, put their
 2 chosen executives in a position where they could do the harm as described
 3 above. The stockholders made their decisions based on their belief that
 4 these executives would act in a manner that would financially benefit the
 5 stockholders. They were mistaken. These executives failed their
 6 stockholders miserably. Yet, Ms. Lapson describes my recommendations
 7 for SCANA to consider omitting its dividend and sell PSNC as a "taking".⁴
 8 The stockholders are not being taken advantage of. Quite the opposite,
 9 ratepayers, innocent bystanders, are being taken advantage of and are the
 10 real victims in this situation.

11
 12 **Q. PLEASE EXPLAIN YOUR CONCERN REGARDING MS.**
 13 **LAPSON'S CONFUSED ATTEMPT TO EXPLAIN HOW A UTILITY**
 14 **FINANCES ITS RATE BASE INVESTMENT.**

15 A. In her rebuttal testimony, Ms. Lapson claims that, in my credit costs
 16 calculations found in my prefiled testimony, I failed to include the principal
 17 amount of bond maturities to be refinanced as part of the calculation. From
 18 that statement as well as from Lapson Exhibit EL-6, she asks this
 19 Commission to believe that once debt goes on the books of a utility, that the
 20 gross amount of debt lasts forever and is never reduced or replaced. Ms.
 21 Lapson appears confused as to how a utility finances rate base investment
 22 (I do not think she is attempting to mislead).

23
 24 **Q. PLEASE EXPLAIN HOW A UTILITY USES LONG-TERM DEBT**
 25 **TO FINANCE PLANT INVESTMENT.**

26 A. Utility regulation allows a company to recover known and actual operating
 27 expenses in any given test year as well as a return on the company's rate
 28 base investments. Operating expenses include, but are not limited to,

⁴ Id, p. 31, l. 20

1 depreciation costs. So, if a utility issues \$100 of debt and uses that \$100 to
 2 invest in plant investment, the utility knows it will recover that \$100 through
 3 depreciation AND be allowed to earn a return on the undepreciated
 4 amounts. This scenario is Ratemaking 101. However, Ms. Lapson states
 5 in her prefiled testimony that I made a “conceptual error by omitting the
 6 principal amount of bond maturities to be refinanced.”⁵ I did not make
 7 such an error as utilities use depreciation expenses to retire existing debt
 8 and to plan for future expansions.

9
 10 If the Commission were to follow Ms. Lapson’s logic, customers would pay
 11 for the same plant over-and-over-and-over again as the gross debt is never
 12 retired. Such a claim is illogical and misleading.

13
 14 **Q. HAS MS. LAPSON EVER PRESENTED TESTIMONY WHEREBY**
 15 **SHE EXHIBITS HER UNDERSTANDING OF HOW UTILITIES**
 16 **FINANCE THEIR RATE BASE INVESTMENTS?**

17 **A.** Yes. Earlier this year, Ms. Lapson testified in the Entergy Texas rate case
 18 heard before the Public Utility Commission of Texas in Docket No. 48371.
 19 On pages 25 and 26 of Ms. Lapson’s prefiled direct testimony in that case,
 20 she discusses the forecasted capital expenditures of Entergy and how
 21 depreciation expenses (cash flow from consumers) could not cover the
 22 expected Entergy Texas capital investment needs. Specifically, Ms. Lapson
 23 states:

24
 25 In comparison, ETT’s depreciation expense in the 12 months
 26 ending December 31, 2017 (the “Test Year”) was approximately
 27 \$118 million, or only about 18% of the \$652 million forecasted
 28 average annual investment for 2018- 2020. Thus, a very large

⁵ Lapson rebuttal, p. 34, l. 8-9

1 amount of the capital investment must be externally funded with
 2 debt and equity funds.⁶

3
 4 My analysis is actually more cautious than that of Ms. Lapson as I assumed
 5 that no future SCE&G capital investment would be financed with
 6 depreciation and, instead, would come entirely from external capital (debt
 7 and equity).

8
 9 **Q. HOW DO YOU RESPOND TO MS. LAPSON'S CONCERN ABOUT**
 10 **THE YIELD SPREADS USED IN YOUR CALCULATIONS TO**
 11 **DETERMINE THE COST OF A POTENTIAL CREDIT**
 12 **DOWNGRADE?**

13 A. As I demonstrated in my direct testimony, I do not believe SCE&G will
 14 declare bankruptcy. Its parent company, SCANA Corp., has sufficient
 15 resources to prevent a bankruptcy filing. There is nothing stopping SCANA
 16 from omitting its dividend and/or selling PSNC and infusing the proceeds
 17 into SCE&G to help support its South Carolina utility operations. Indeed,
 18 as I demonstrated above, credit rating agencies have already called the
 19 recent SCANA dividend reduction as "supportive of credit quality".⁷

20
 21 Stockholders may not approve of my recommendations that they, not
 22 ratepayers, bear the burden created by SCANA executives in the failure of
 23 the Summer nuclear plants. Stockholders, not ratepayers, are responsible
 24 for executive actions that led to this calamity. Stockholders, not ratepayers,
 25 should pay the cost of the nuclear abandonment costs.

26

⁶ Lapson prefled direct testimony before the Public Utility Commission of
 Texas in Docket No. 48371, p. 26, l. 3-8.
http://interchange.puc.texas.gov/Documents/48371_1_980210.PDF

⁷ July 23, 2018 Moody's Credit Report of South Carolina Electric & Gas,
 Lapson Exhibit EL-2.

- 1 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**
- 2 **A. Yes, it does.**